

COMMISSION RECAPTURE POLICY

Pursuant to 26 U.S.C. § 401, Neb. Rev. Stat. §23-2330.02, §24-713.02, §79-977.02, §81-2039, §84-1329.04, as recaptured commissions are generated by assets in the defined benefit plans, the cash balance benefit, and the endowments (collectively, the "Plans"), the Nebraska Investment Council (the Council) recognizes them to be assets of the Plans in which the commissions were generated. Accordingly, the rebates earned from the recaptured commissions are to be used solely for the benefit of that Plan's participants.

The amount of recaptured commissions is variable each year, depending on the investment managers' strategy and market conditions. As earned, the State Investment Officer will maintain the rebated commissions in an account at the Plans' custodian bank created exclusively for this purpose. The State Investment Officer will perform a sub-accounting process that identifies the balance for each of the three entities generating recaptured commissions. On a best efforts basis, charges to the accounts will be to pay for services that directly or indirectly benefit the participants in each of the Plans that generate the recaptured commissions. Some allowable expenses are specifically related to one of the Plans, and in these cases, the charges will be fully allocated to the commission recapture balance for that Plan. Other allowable expenses are for services that benefit all three of the entities, and these will be charged to the commission recapture balances on a pro-rata basis.

Within 60 days after the end of each fiscal year, the balance in the recaptured commissions fund will be valued relative to projected expenses. If the balance is greater than one-half of the appropriated budget for the Council for the current year, the State Investment Officer will return the excess (the amount greater than one-half) to the Plan participants by transferring the excess to each of the three entities in the Plans on a pro-rata basis.

The Council takes very seriously its responsibility to the participants of the Plans entrusted to it. Federal regulations and Nebraska statutes state clearly that directed brokerage and recaptured commissions are only to be used to pay for services, or offset expenses, that directly relate to the investment management and oversight of plan assets, or for plan benefits. The Council believes that using these recaptured commissions for the benefit of Plan participants by paying for related expenses or returning the money back to the Plan participants is the ethical and proper legal action.

Approved April 14, 2003.